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THE MARINE CORPS STOCK FUND

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THE MARINE CORPS STOCK FUND

by

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18

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ADMINISTRATIVE

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TABLE OF CONTENTS

	Page
ACKNOWLEDGMENTS	ii
LIST OF TABLES.	iv
Chapter	
I. INTRODUCTION--AN EXPLANATION OF THE OBJECTIVES.	1
II. HISTORY, PRINCIPLE AND OBJECTIVES OF STOCK FUNDS-- GENERAL INFORMATION	3
III. THE MARINE CORPS STOCK FUND--HISTORY AND THE PRESENT CONCEPT	10
IV. THE MARINE CORPS STOCK FUND--ORGANIZATION AND OPERATION	16
V. MARINE CORPS STOCK FUND FINANCIAL REPORTING AND CONTROL	25
VI. THE MARINE CORPS STOCK FUND BUDGETARY PROCESS AND CONTROLS.	47
VII. SUMMARY--EVALUATION AND CONCLUSIONS	55
BIBLIOGRAPHY	62

LIST OF TABLES

Table		Page
1.	The Marine Corps Stock Fund--The Approximate Number of Line Items and the Value of the Inventories for Each of the Eight Stock Fund Categories as of 30 June 1960	15
2.	Statement of Financial Condition	31
3.	Changes in Capital of the Fund	33
4.	Summary of Cash Sources.	35
5.	Inventory Status and Transaction Statement	37
6.	Operating Budget Statement Major Material Category	38
7.	Reimbursable Issues (Net).	40
8.	Status of Budget Authority	41
9.	Marine Corps Stock Fund Inventories--Stratification as of 30 June 1960.	46

CHAPTER I

INTRODUCTION--AN EXPLANATION OF THE OBJECTIVES

Faced with the task of selecting an appropriate subject for a research paper, my initial reaction was to conduct research in an area which would prove both interesting and beneficial in future endeavors. With this thought in mind, solicitation of the assistance of personnel in the Fiscal Division, Headquarters Marine Corps, as to probable areas, culminated with the decision to prepare a research paper on the Marine Corps Stock Fund.

Thus, my initial objective in selecting the Marine Corps Stock Fund was basically one of self-education. Preliminary inquiry into the subject presented the inspiration for the second objective of this paper. It was evident from my first exposure to the Marine Corps Stock Fund supervisory personnel, and the directives governing stock fund operations, that the personnel working in this area were a hard-core of "experts" who speak and write in a language incomprehensible to one who has not been privileged to have been "supply educated."

The fact that over ninety per cent of the items carried in the Marine Corps Supply System are also found in the Marine Corps Stock Fund is evidence of its importance. The fund benefits almost every man and woman in

the Marine Corps, yet only a limited number have even a vague idea of the principle underlying the stock fund, its reason for being, or its operation. After having conducted preliminary inquiry into the operation of the fund the reason for much of this apparent lack of knowledge became evident. The directives dealing with the operation of the fund are so replete with technical supply terminology that individuals sincere in their desire to learn, but lacking a broad supply background, find themselves overwhelmed by it all and give up in despair.

Thus recognizing the importance of the stock fund and armed with the knowledge that few possess even a general knowledge of the fund it is my sincere hope to present this information in such a manner that the basic principles could be understood by all, rather than just a select few.

As a final objective of this paper an evaluation will be made regarding the success or failure of the fund in consequence with the objectives envisioned by the originators of the stock fund principle. In this area an attempt will be made to forecast the influence of the newest and most talked-about governmental agency, the Defense Supply Agency--which though in its infancy has exerted much pressure in the supply department of all the military services.

In attempting to accomplish the objectives just enumerated we will take a fleeting look at the background of the stock fund in general and the Marine Corps Stock Fund in particular, in order to learn some of the reasons for its inception; to study some of the problems in the administration of the fund; to evaluate and study the present organization and operating policies; and finally to indicate the budgetary processes and controls.

CHAPTER II

HISTORY, PRINCIPLE AND OBJECTIVES OF STOCK FUNDS--GENERAL INFORMATION

A quote from the Interim Report of the Preparedness Subcommittee No. 3 of the Committee on Armed Services should provide the necessary groundwork from which to progress into the subject matter.

One of the major causes of business failures in this country is the lack of adequate or accurate accounting systems. It is axiomatic to say that no large, successful business can operate today without the benefit of accurate and timely financial information concerning its operations.

It is easy to understand why. No matter how excellent the product, no matter how hard and conscientiously the employees perform their duties, without adequate accounting records profits or losses cannot be determined, wasteful or inefficient operations cannot be identified, and proper decisions cannot be made by the management.

Further, intricate federal laws compel the businessman to maintain the most modern and accurate accounting systems possible. Yet these laws do not apply to that same federal government, nor do we find that modern and accurate fiscal methods are employed in the operation of the Federal Government.

In light of the great advances which have been made in budgetary and accounting techniques, it is appalling to examine the fiscal operations of the military establishment and find that the accounting system has been jerry-built since the days of George Washington.

It was the conclusion of Senator Margaret Chase Smith's Preparedness Subcommittee No. 2 of the Committee on Armed Services which investigated the ammunition shortages, and, hence, the disposition of those funds which had been appropriated for the purchase of ammunition, that the "budgetary structure of the Department of Defense . . . (is) in an intolerable state."

Let it be emphasized that the subcommittee realizes that there is a tremendous difference between the operations of the Department of Defense and a profit making organization. We do not say that the Department of Defense should be "run like a business." It cannot be. But let it also be stated just as plainly that the money and materiel entrusted to the Department of Defense must be efficiently used and accurately accounted for. If the American people and their Congress are to be assured both that the military is operating as effectively and as economically as possible, and that the decisions they make are reached only after accurate information has been presented to them on the costs of the various programs requested, then we must have accurate fiscal records, inventories, and budgetary systems.

Ever since the operations of our military have assumed such large significance in the nation's budget, there has been a demand for the adoption of more up-to-date businesslike procedures. The first significant action was taken shortly after the Second World War when the Defense Department Task Force of the Hoover Commission, under the Chairmanship of Mr. Ferdinand Eberstadt graphically pointed out many of the shortcomings of the fiscal procedures of the military.

The revelations of the Hoover Commission report attracted great interest from several members of the Senate Armed Services Committee, and the efforts of the members of the committee, particularly Senator Harry F. Byrd, led to the enactment of legislation, drafted with the assistance of Mr. Eberstadt, which was designed to promote economy and efficiency in defense operations through the control of fiscal management by means traditionally employed in private enterprise.

This legislation was embodied in Section 11 of the 1949 amendments to the National Security Act of 1947 as Title IV of the Act.¹

This quote though lengthy seems apropos in pointing up the intention of the Congress in the adoption of Title IV; namely, that the money and material entrusted to the Department of Defense must be efficiently used and accurately accounted for. In the area of working capital funds this

¹U. S. Congress, Senate, Interim Report of the Preparedness Subcommittee No. 3 of the Committee on Armed Services, Implementation of Title IV National Security Act of 1947 as Amended, S. Res 86, 83rd Congress (Washington: Government Printing Office, 1954).

legislation was designed to promote economy and efficiency through the control of fiscal management by means traditionally employed in private enterprise. This point will be stressed throughout the paper in comparing the stock fund principle to those of a commercial enterprise.

Secretary of Defense McNeil in describing Title IV of the National Security Act Amendments of 1949 stated:

This title really provides the machinery for placing the operations of the military services on a more businesslike basis.

No complete system was ever established--bits and pieces have been provided at times, but this is the first attempt, I think, to provide on an overall basis for businesslike operations.²

Section 405 of Title IV of the National Security Act contains the basic authority for the establishment of working-capital funds. This section provides:

In order more effectively to control and account for the cost of programs and work performed in the Department of Defense, the Secretary of Defense is authorized to require the establishment of working-capital funds in the Department of Defense for the purpose of: (1) financing inventories of such stores supplies materials and equipment as he may designate³

Working-capital funds are of two types, commercial or industrial funds and stock funds.⁴ This paper will be devoted to the discussion of stock funds

²U. S. Congress, Senate Preparedness Subcommittee, No. 3 of the Committee on Armed Services, Implementation of Title IV National Security Act of 1947, as amended, 83rd Congress, 1st Sess., (Washington: Government Printing Office, 1954), p. 2.

³U. S. Congress, 81st Congress, 1st Sess., National Security Act Amendments of 1949, Public Law 216 (Washington: Government Printing Office, 1949).

⁴U. S. Congress, Senate, loc cit., p. 10.

with special emphasis on the Marine Corps Stock Fund.

A stock fund is a type of working-capital fund established to finance the acquisition and maintenance of materials, supplies, and equipment for sale within a military department or to other military departments or to their personnel. It contemplates the operation of the inventory in a fashion similar to the operation of a privately owned merchandising organization.⁵

The stock fund principle can be compared to the normal operations of a merchandising organization. The proprietor of business uses invested funds (capital) to purchase goods which are resold at a profit. The income from such sales is then used to purchase additional merchandise, thus continuing the process or cycle.

A stock fund is the application of the merchandising cycle to the supply function of the military department; with the exception of profits. More specifically, the stock fund is an operational and financial device employed by the military services to facilitate financial control over consumable supply items for which there is a recurring demand. The stock fund mechanism permits the handling of inventories of continuous demand items on a replacement basis, much as private distributors replace stocks depleted by sales with new stocks purchased with the proceeds from such sales.

Although the passage of "Title IV" publicized the stock fund concept as a means of control in military financing and required all departments of the military establishment to utilize this method, the basic principles of a working-capital fund were not new. A congressional act of March 3, 1893, directed that the sum of \$200,000 be carried to the credit of a permanent

⁵Ibid.

Naval Supply Fund.⁶ The greatly expanded Naval Supply Fund, presently known as the Navy Stock Fund, is the forerunner and format of the existing military stock funds.

The establishment of stock funds was based on a requirement for businesslike management and financial efficiency within the military departments. The purpose of a stock fund may, therefore, be listed as:⁷

1. To provide a simplified means for consolidating management; financing, control, and accounting for the procurement of materials which are chargeable to a number of consuming activities when the items are issued.
2. To facilitate improved control of consumption of material through budgeting, financing and accounting.
3. To provide a means for financing the acquisition and holding of stocks which would simplify appropriation accounting and give greater financial flexibility in these operations than is available by any other means.

The consolidation of inventories improves financial control over the consumption of material at the consumer level since the consumer cannot resort to free issues but must budget for requirements and account for all purchases.

Some of the management advantages which the originators hoped would be gained by the operation of a stock fund are summarized as follows:⁸

⁶41 Statutes 1169.

⁷Department of Defense Directive 7420.1, "Regulations Governing Stock Fund Operation," (Washington: Department of Defense, December 19, 1956,) p. 2.

⁸Department of Defense, Working Capital, Funds of the Department of Defense, Sec. 405, Public Law 216.

1. Funds to replenish inventories to meet known requirements are provided automatically. (Procurement of supply items is kept closer in line with demand, resulting in better utilization of inventories.)

2. Contracts for stock fund purchases can be placed in orderly fashion considering procurement lead-time and in some cases can be timed to take advantage of favorable prices.

3. All inventories of the stock fund or division of the stock fund are carried in one account, thereby eliminating the necessity for separate ownership accounts and thus facilitating cross-servicing between departments on a cash and carry basis.

4. Mobilization reserve stocks in a stock fund are protected for their intended use, since they cannot be issued for current consumption without provision for replacement through reimbursement upon sale.

5. Operations under a stock fund tend to make a consuming activity more cost conscious since the appropriation of the consuming activity is charged for the cost of items issued, thereby encouraging supply discipline.

6. Budgets and the financing of customer requirements are placed on a cost basis under which charges for material are made at the time material is issued from the fund, rather than at the time obligations for procurement are incurred.

The stock fund form of inventory control, although used by the Navy since 1893, was not utilized by the other military departments prior to the enactment of "Title IV" in 1949. The management of the Navy Stock Fund was

available for guidance and reference, but the initial establishment of a stock fund in each of the other military departments offered its own distinct problems. Differences in organizational structure, missions, and material and equipment used, each caused its own problems which could only be solved by the experience and study of the personnel who were required to operate the various funds.

The following chapters are devoted to outlining and discussing the establishment, organization, operation, and progress of the Marine Corps Stock Fund.

CHAPTER III

THE MARINE CORPS STOCK FUND--HISTORY AND THE PRESENT CONCEPT

As we have already noted,⁹ Section 405 of the National Security Act, contains the basic authority for the establishment of working-capital funds.

The passage of "Title IV" of the National Security Act required that a thorough evaluation of the financial management structure in the Marine Corps be conducted and changes instituted where necessary. Due to the Korean War, the changes required to establish a stock fund were not attempted nor was a study initiated immediately. However, on September 26, 1952, the Secretary of the Navy directed that immediate action be taken to establish a Marine Corps Stock Fund. He further required that this fund be operational by July 1, 1953, if at all feasible.

The full installation of such a fund was in itself a tremendous job, but the time limitation, less than nine months from the initial directive until operations were scheduled to commence, only multiplied the odds against success. The fact that the deadline was met is a credit to those who

⁹Supra, p. 5.

participated in the initial design, organization, and installation of the fund.

In establishing policies and procedures for the installation of such a fund the basic tasks included:¹⁰

1. The design, development, and installation of a financial reporting system for inventories.
2. The selection, pricing, and cataloging of items to be financed under the fund.
3. The development of a financial plan which would project the requirements for cash and inventories to be capitalized.
4. The development and implementation of a system for charging customers and reimbursing the fund.
5. The development of accounting systems and procedures.
6. The development of a charter.
7. The promulgation of the necessary directives and manuals for use in the field and in the education of personnel.

The efforts of the task force appointed to study the problems progressed with such satisfaction that on March 17, 1953, a charter was recommended and forwarded to the Secretary of the Navy for approval. The principles set forth in the charter specified that:¹¹

¹⁰R. B. Farrally, "Review and Summation of Marine Corps Stock Fund Management" Armed Forces Management, Vol. 1 (March 6, 1955), p. 8.

¹¹"Charter for the Marine Corps Stock Fund," Marine Corps Stores Accounting Manual, (Washington: Department of the Navy, 1954), pp. ii-iv.

1. Operations would commence effective July 1, 1953.

2. Administration and management of the fund would be under the direction of the Quartermaster General of the Marine Corps.

3. The functions and responsibilities of the Quartermaster General were to include:

a. Obtaining maximum use of the fund capital with minimum stock levels.

b. Formulating and establishing operating procedures.

c. Price computation, cataloging, and price list promulgation.

d. Management of acquisition, storage, control and distribution of inventories.

e. Maintenance of accounts and records.

f. Preparation of reports and statements.

4. The items encompassed by the fund would include all inventories designed in the categories of individual clothing, subsistence, electronics, engineer, general supply, motor transport, and ordnance, and that stratification of these categories would be accomplished.

5. The following establishments would be included:

a. All Marine Corps Depots.

b. Marine Corps Schools, Quantico, Virginia.

c. All Marine Corps Air Stations in continental United States.

d. For individual clothing only, all regular Marine Corps units not on combat accountability.

6. The initial capitalization should include cash, inventories on hand, and on order, and liabilities in the form of a stock withdrawal credit to be based on the amount of approved budget requirements for stock fund issues in excess of available funds for fiscal year 1954.

The proposed charter was approved by the Secretary of Defense on June 1, 1953, and on July 1, 1953, the Marine Corps Stock Fund commenced operations.

There is no disputing the fact that initial operations of the fund lacked refinement and that many years would pass before a really good system covering all the various aspects would be in force. But, the fund had been created and the remarkable success to date received recognition from the Congress and set a standard for the other services to attain.¹²

The charter for the Marine Corps Stock Fund was reestablished on 12 March 1956, under authority contained in Section 405 of the National Security Act and the Regulations Governing Stock Fund Operations, Department of Defense Directive 7420.1 approved by the Assistant Secretary of Defense (Comptroller) on 12 March 1956.¹³ This is the charter under which the fund is presently operating.

¹²U. S. Congress, Senate, Interim Report of the Preparedness Subcommittee No. 3 of the Committee on Armed Services, Implementation of Title IV National Security Act of 1947, as amended, Senate Report 86, 83rd Congress, (Washington: Government Printing Office, 1954), p. 11.

¹³Supra, p. 11.

The initial capitalization of the fund amounted to \$316 million, of which \$40 million was in cash that had been transferred from unobligated balances of annual appropriations, and \$276 million in inventories. A steady growth has been accomplished through the acquisition of an ever increasing number of supply items to stock fund control. Table 1 illustrates the value of inventories at 30 June 1960, in terms of the quantity of items encompassed. The number of items per stock category has grown from slightly over 34,000 in 1953, to in excess of 281,000 in 1961. As of June 30, 1961, the value of these inventories amounted to \$256,800,000; and cash on hand amounted to \$35,300,000.

By following a reinvestment policy which allowed sales to exceed obligation authority stock level reductions in certain areas were obtained with the resulting effect that inventories were converted into cash and excesses were reduced. By June 30, 1961, the sum of \$133,900,000 had been returned by legislation to the Treasury or transferred to other appropriations. This exceeds by \$93,900,000 the cash originally received by transfer at the inception of the fund.

We have thus reviewed the authority for the adoption of stock funds, the objectives which were hoped for by their adoption and a brief look at the history of these funds. The following chapter shall be devoted to the operation and organization of the Marine Corps Stock Fund.

TABLE 1.- The Marine Corps Stock Fund--The Approximate Number of Line Items and the Value of the Inventories for Each of the Eight Stock Fund Categories as of 30 June 1960

Categories	Approximate Number of Line Items	Value of Inventories at 30 June 1960 (millions of dollars)
General Property	59,300	\$96.0
Clothing and Textiles	4,400	30.8
Ordnance, Tank, Automotive	75,200	158.9
Subsistence	300	5.7
Fuel	100	1.7
Construction Supplies and Related Equipment	29,800	37.5
Commissary Stores	5,500	2.1
Communication, Electronic and Electric	76,800	60.5
Total	281,400	\$393.2

Source: Working Capital Funds of the Department of Defense, Sec. 405, Public Law 216, 30 June 1960.

CHAPTER IV

THE MARINE CORPS STOCK FUND--ORGANIZATION AND OPERATION

Under the direction of the Secretary of the Navy and the Commandant of the Marine Corps, the Quartermaster General of the Marine Corps is assigned the responsibility to administer and manage the Marine Corps Stock Fund in conformity with such policy statements, appropriate regulations, and procedures as may be issued by higher authority.

The Quartermaster General of the Marine Corps manages and administers the stock fund with the advice and guidance of the Marine Corps Stock Fund Board. The board, composed of key members of the Commandant's staff, effects an operational review of the fund and provides guidance as related to:¹⁴

1. Estimating income after consideration of the plans for operational forces, weapons, equipment, logistical and personnel programs.
2. Planned inventories in the light of planned consumer program requirements.
3. Planned procurement programs and inventory holdings in relation to priority assigned various programs.
4. Planned mobilization reserves in relation to procurement capability and relative priority.

¹⁴Letter from Commandant of the Marine Corps, January 8, 1957.

To assist the Quartermaster General in overall management and administration, a central office, known as the Stock Fund Management Section, was established to control and coordinate major segments of the fund. Subdivisions of the management section, termed Supply and Inventory Control Points, are responsible for the complete management of particular commodity areas within the fund.

The fund actually operates in a manner similar to a large chain grocery store. Management and control are centralized at Headquarters, Marine Corps; the procurement, receipt, storage, and issue of materials is decentralized to key points throughout the country. A "Self-Service Center" has been established within the system which basically parallels the commercial-type supermarket. Accounting and inventory reports received from the field activities are consolidated at Headquarters and are used as a basis for decisions and reports to higher authority.

At this point a brief discussion of the organization of the Marine Corps Stores System should aid in understanding the operation of the fund.

To the Marine Corps Stores System is assigned the mission of providing financial and inventory management of all material financed by the Marine Corps Stock Fund and by funds budgeted for Marine Corps Appropriation Stores Account projects and programs, and stocked in the Marine Corps Stock Fund Account or the Marine Corps Appropriation Stores Account.

The Marine Corps Stores System includes two inventory control points, one located at Headquarters Marine Corps and one located at Marine Corps

Supply Activity, Philadelphia, Pennsylvania, and two coastal supply complexes, each composed of a supply center and the stock account (SA) activities of the major non-Fleet Marine Force commands directly supported by the supply center.

Additionally, the stores system embraces designated individual clothing accounts, commissary stores accounts, nonmechanized subsistence accounts at other than the locations identified in the composition of the two coastal supply complexes and ammunition accounts comprised of Marine Corps-owned ammunition stocked at Navy ammunition depots. Stores system activities supply stores account assets to these accounts and perform for them all required stores accounting functions.¹⁵

The Marine Corps stores system consists of the following major commands:

1. Marine Corps Supply Activity, Philadelphia, Pennsylvania.
2. Marine Corps Supply Center, Albany, Georgia, and Barstow, California.
3. Marine Corps Schools, Quantico, Virginia.
4. Marine Corps Bases, Camp Lejeune, North Carolina, and Camp Pendleton, California.
5. Marine Corps Recruit Depots, Parris Island, South Carolina, and San Diego, California.

At this point it would seem appropriate to consider some of the supply management responsibilities which are assigned these major commands.

¹⁵Department of the Navy, Headquarters United States Marine Corps, Marine Corps Order P 4400.19 "Marine Corps Supply Manual, Volume 1," (Washington: Department of the Navy, Headquarters United States Marine Corps, May 23, 1961), pp. 1-7.

Under the military and management control of the Commandant of the Marine Corps, the Commanding General, Marine Corps Supply Activity, Philadelphia, is responsible for inventory control of all centrally-managed and centrally procured items (other than subsistence, commissary stores, dry cell batteries, petroleum, oils, and lubricants) procured under the appropriation Marine Corps Stock Fund.

More detailed responsibilities assigned the Supply Activity, Philadelphia, include:

1. Computation of requirements.
2. Preparation of budget estimates.
3. Development of inventory data.
4. Positioning or repositioning of assigned items included within the stock fund.

5. Maintenance of attained mobilization reserve stock assets.
6. Functional responsibilities regarding inventory control.

To the Commandant, Marine Corps Schools, Quantico; Commanding Generals, Marine Corps Bases, Camp Lejeune and Camp Pendleton; and Commanding General, Marine Corps Recruit Depots, Parris Island and San Diego, are assigned the following responsibilities relative to the operation of the stock fund:

1. Budgeting for, requisitioning, and maintaining authorized levels of locally-managed, locally procured material.
2. Ensuring that adequate supplies are stocked to support fleet marine force and other assigned activities.

3. Maintaining security over supplies in store.
4. Providing warehousing and administrative spaces.
5. Maintaining stock and local location and inventory records.

The basic principle of the Marine Corps Stock Fund operation encompasses a revolving cycle of procurements, storage, and distribution accomplished in accordance with the mission and responsibilities assigned the major commands of the Marine Corps Stores Systems.¹⁶

In general, the basic criteria for determining categories of items to be financed by the stock fund are: (1) that the cost of items of such categories when issued for use are chargeable to a number of consuming activities; or (2) that the items of such categories are held primarily for sale to personnel of the department or personnel of other agencies of the Department of Defense; (3) that there must be a recurring demand for the items of any category held by a stock fund so that the stock fund investment therein shall not become frozen; and (4) generally, the items which may be included in stock funds shall be confined to those for issue for supply purposes and not extended to include those held for capital investment or for use.¹⁷

Items to be included in the fund are purchased and stored in sufficient quantities to maintain stock levels at predetermined amounts. All material authorized to be purchased by the stock fund are carried in the

¹⁶Supra, p. 18.

¹⁷Department of Defense Directive 7420.1, p. 9.

fund at all supply centers, depots, and at designated stations. When required by the field activities, distribution is accomplished through established channels of supply to Marine Corps users. As these items are issued from inventory to use, the appropriation granted to the using function is charged and the cash capital of the stock fund is reimbursed. By this method, new credit is generated for another cycle.

All materials procured and/or stored in the Marine Corps supply system for issue, for maintenance, and operating purposes are authorized to be carried in the stock fund. Normally this will include all consumable types of material and relatively minor items of equipment, including parts and components used in the manufacture, assembly, maintenance or rebuild of end-items for the military supply system.

The major categories of material approved for financing by the stock fund are: clothing and textiles, electronics, engineer, fuel, general supply, motor transport, ordnance, subsistence, and commissary stores. All secondary items within these categories (including spare parts) are also included.¹⁸

The major commands in the Marine Corps stores system¹⁹ act as receiving, storage, and issuing points, the "selling outlets" for the fund.

Sales at standard prices are made by the above selling outlets to authorized customers on a reimbursable basis. The purchasing activity "pays" for the items by citing the appropriation available from which a transfer

¹⁸ Charter for the Marine Corps Stock Fund, loc. cit.

¹⁹ Supra, p. 18.

of funds is made. These transfers are accomplished at Headquarters, Marine Corps by the Fiscal Division. The total monetary values of all requisitions received is computed and used as the basis for debiting and crediting the proper appropriations.

Standard prices have been established for each item carried in the stock fund. The following general pricing policies have been specified by the Department of Defense:²⁰

Each item financed under a stock fund shall have a single standard price which shall be used for both inventory accounting (including the determination of losses, gains, or adjustments) and for effecting reimbursements for sale or issue.

The standard price of each item shall include the following elements:

1. The current market or production cost of the item at the time the price is established.
2. The transportation costs for the item from manufacturer or contractor to the first point of destination within the stock fund supply system and in the case of single manager stock fund divisions, the additional transportation costs between single manager depots and from such depots to the consuming inventory locations within the United States.
3. A surcharge to compensate the stock fund for all foreseeable net losses and authorized expenses relating to such item.

²⁰Department of Defense Directive 7420.1, op. cit.

The expense of procurement, warehousing, redistribution, repacking and handling, or any other function of supply administration pertaining to a stock fund item will not be financed from the stock fund or included in the standard prices of the item but will be charged to appropriations made specifically therefor.

The Marine Corps develops standard prices in conformity with the above general policies. The standard price is determined by adding to the current replacement cost two surcharges; one to offset first destination costs, and another to recover all foreseeable net losses and authorized expenses.

It should be noted that certain expenses which would normally be included in the cost of the product under a commercial type operation are not allowable for computing standard prices. Examples of these are depreciation, administrative costs and certain other overhead costs. These costs are charged to appropriations made specifically for that purpose.

All inventories carried in the Marine Corps Stock Fund, with the exception of Commissary Stores, are valued at "standard price," in accordance with Department of Defense pricing policies.

Standard price lists containing the current "selling" price of stock fund items are published and distributed to the field activities on a quarterly basis to be used in determining the "purchase" price of materials requisitioned.

By basing the sales on a standard price rather than market cost or some other method, the fund will recover upon sale or issue the amount in

dollars required to replace the item in inventory and thus preserve the integrity of the fund in the sense that it is self-perpetuating in terms of physical and quantitative corpus. In addition, standard pricing promotes uniformity throughout the system, as well as accuracy and simplicity in accounting and inventory control functions.

It should be noted at this point that under certain conditions stock fund items will be "sold" under a "reduced standard price" basis. A "reduced standard price" is a price reduction of 50% from standard price for sales purposes, for material having an actual difference in utility or desirability due to age, condition, or model. Price reductions may be authorized by appropriate inventory managers when material meets this established criteria.

This essentially is the manner in which the stock fund is organized and operates. The question which logically comes to mind at this point is how management is kept informed or abreast of the operation. The following chapter will reveal the answer as we review the financial reporting system and controls.

CHAPTER V

MARINE CORPS STOCK FUND FINANCIAL REPORTING AND CONTROL

Section 405 of Title IV of the National Security Act of 1947, as amended, which authorized the establishment of working capital funds, provides that, "reports of the condition and operations of such funds shall be made annually to the President and the Congress."

The Department of Defense has developed a uniform financial reporting system for working-capital fund operations for the purpose of financial management requirements in the Department of Defense, and to meet the reporting requirements of the Congress and other interested agencies.

From the very outset it was the intent of Congress that the operation of working-capital funds shall parallel those of a commercial type organization. The following is an excerpt from the General Summary of the Report of the Committee on Armed Services,²¹

Among its other provisions are authority for the organization of inventories of the military departments into stock funds, for the operation of industrial and commercial-type activities as integral working units--in a manner similar to commercial business enterprises. . . .

²¹U. S. Congress, House of Representatives, Report of Committee on Armed Services, Reorganizing Fiscal Management in the National Military Establishment, 81st Congress, 1st Sess. Report #1064 (Washington: Government Printing Office, 1949).

Throughout the laws, directives, and regulations pertaining to working-capital and stock funds, the terms "businesslike" management and "commercial-type" operation are used repeatedly. A closer study of the fund reveals that in many ways the financial structure and the control methods utilized are similar to comparable civilian merchandising operations, but in many other ways the operation of the fund is of necessity different or at least modified. These differences for the most part are required because of the public or governmental nature of the funds. Regulations concerning reports, reviews and specific transactions each has its effect in causing the stock fund's financial and accounting policies and procedures to differ slightly from those established as generally accepted for a merchandising operation.

The published reports of the fund are similar in appearance to their counterparts in the commercial businesses, but because of the unusual nature of various transactions, the subtitles and accounts of some of the statements may require some explanation. It is the purpose of this chapter to discuss the controls and reports currently required and to give some explanation in those areas where deviation from commercial practice is pronounced.

Several basic principles of internal control are not only used but are required as a prerequisite to a satisfactory system of stock fund financial accounting. The commercial nature of these principles is a good indication of the degree to which businesslike techniques and procedures are being utilized. By regulation the following minimum requirements must be observed and their application is subject to audit by the General Accounting

Office:²²

1. Summary accounts for transactions and stock balances shall be maintained in financial terms by the stock classifications adopted for stock reporting purposes, but separate accounts shall be maintained under each such stock classification for mobilization reserve stocks.

2. Stock transactions shall be summarized in financial terms not less frequently than monthly, for recording in the aforementioned summary (or control) accounts.

3. The financial accounts shall be so devised as to facilitate the preparation of monthly or quarterly reports as required.

4. Detailed stock records shall be maintained in support of the summary (control) accounts, but these records need not show prices or amounts.

5. All identifiable losses of material or disposals for any cause, as well as normal issues, shall be recorded promptly and documented with form showing authorizing or approving signatures.

6. The original documents supporting stock transactions shall be retained at the site where the basic financial or stock records of the Stock Fund Division are maintained.

7. Periodic or continuous, rotating physical checks of stock items shall be made and the stock records and summary (control) accounts shall be adjusted in accordance therewith.

²² Department of Defense Directive 7420.1, p. 23.

8. As a basic control measure, financial accounts must be maintained by persons other than those having physical custody of stocks. Persons authorized to pay for goods received or who authorize withdrawal of stocks must also be separated from the record-keeping function.

The Congress in placing the requirement in the law that, "reports of the condition and operation of such funds shall be made annually to the President and to the Congress,"²³ reserved to itself the final right to evaluate the operations of the fund. This annual report, comparable to the reports issued by corporations, not only allows for financial review and evaluation but gives the Congress a device with which to determine the success achieved from year to year in the way the fund management is complying with the intent of the law. In addition, as requested by the Appropriations Committee, semi-annual reports of the same character are submitted to the committee of each house.²⁴

Prior to submission to the Congress all external reports are reviewed, audited, and evaluated by the Secretary of Defense, Bureau of the Budget, and the General Accounting Office.

Department of Defense Instruction 7420.6 provides that the submission of reports on a quarterly basis to meet the requirements for overall financial review, for use in the preparation of reports to the Congress, and to facilitate financial control actions under the budget process be submitted

²³Public Law 216, Sec. 405.

²⁴Department of Defense Directive 7420.1, p. 33.

to the Secretary of Defense.²⁵

Reports on the status of appropriation accounts submitted on a monthly basis to the Bureau of the Budget round out the continuing external control methods employed to check fund operations.

These external reports use narration, financial statements, and graphic presentation to present the operations and readiness position of the fund as a unit and by each category of material individually.

Explanations of all unusual items shown in the financial statements are furnished in notes attached thereto. The reports set forth data with respect to apportionments, obligations, expenditures, and stock transactions by each material category for which separate budgetary control has been established.

A narrative section included with the annual financial statements for each stock fund division or material category includes an analysis of significant financial results and trends, comments on management improvements and progress attained as well as information on corrective actions initiated or planned. It also includes a schedule of the surcharge rates for losses for each major material category, with such analysis of the factors affecting loss experience as may be appropriate for review of pricing. A narrative report also accompanies the quarterly report submission, but this narrative is limited to significant changes affecting the budgetary and cash program

²⁵Department of Defense Instruction 7420.6, "Financial Reports for Department of Defense Stock Funds," (Washington: Department of Defense, September 19, 1961), p. 2.

The results of the present study are in line with the findings of previous research on the effects of the environment on the development of the child.

It is important to note that the results of the present study are based on a sample of children from a single country and may not be generalizable to other cultures.

The limitations of the present study are that it is a cross-sectional study and does not allow for the examination of causal relationships between the variables.

Future research should aim to address these limitations by conducting longitudinal studies and using more diverse samples of children.

In conclusion, the results of the present study suggest that the environment plays a significant role in the development of the child and that the quality of the environment is an important factor to consider.

It is important for parents and policymakers to be aware of the importance of the environment and to take steps to improve the quality of the environment for children.

The authors would like to thank the children and parents who participated in the study and the staff of the research center for their assistance.

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The authors would like to thank the research center for providing the facilities and equipment for this study.

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requirements.²⁶

The statements described in the paragraphs to follow include the combined report and budget forms required by the Office of the Secretary of Defense in overall financial review, in preparation of reports to Congress and other government agencies. These statements are as follows:

Statement of Financial Condition

Changes in Capital of the Fund

Summary of Cash Sources and Application and Cash Budgets

Inventory Status and Transaction Statements

Operating Budget Statement

Reimbursable Issues (net)

Status of Budget Authority.²⁷

The statement of Financial Condition summarizes the assets, liabilities and capital of the stock fund or stock fund division at the end of each quarterly period and at the beginning and end of the fiscal year.

The Statement of Financial Condition, Table 2, is similar in form and general content to a commercial balance sheet. A close analysis of Figure 2 will reveal such familiar accounts as "Accounts Receivable" and "Accounts Payable." It should be remembered that at the outset of this paper it was shown it was the intent of Congress to establish a fund which would closely parallel the operation of commercial-type enterprises; this "Statement of

²⁶ Ibid.

²⁷ Ibid.

TABLE 2

(DEPARTMENT) STOCK FUND
STATEMENT OF FINANCIAL CONDITION
(Date)

	<u>Assets</u>	CURRENT FISCAL YEAR		
		CURRENT DATE	ACTUAL JULY 1	ESTIMATED JUNE 30
1.	Cash:			
a.	Funds available for disbursement			
b.	Funds held in unallocated reserve			
c.	Total available Treasury balance			
2.	Accounts receivable:			
a.	Government agencies			
b.	All other			
c.	Total accounts receivable			
3.	Inventories of materiel			
4.	Materiel to be received under obligations against procurement appropriations			
5.	Progress payments			
6.	Claims			
7.	Undistributed collections/disbursements			
8.	Other assets:			
a.				
b.				
9.	Total assets			
<u>Liabilities</u>				
10.	Accounts payable:			
a.	Government agencies			
b.	All other			
c.	Total accounts payable			
11.	Stock withdrawal credits			
12.	Undistributed collections/disbursements			
13.	Other liabilities:			
a.				
b.				
14.	Total liabilities excluding Capital			
15.	Capital of Fund			
16.	Total liabilities			
17.	Data an obligational authority:			
a.	Contracts and orders outstanding			
b.	Commitments outstanding			
c.	Balance of budget authority for commitment			

Financial Condition" should be an indication of the extent to which the operation of the fund does in fact "copy" or follow commercial-type accounting.

The second statement to be considered, Changes in Capital of the Fund, Table 3, reflects the changes in capital for the reporting periods of the quarter and fiscal year. This statement provides a separate analysis of the balances and additions and deductions affecting the net changes in capital due to appropriations, cash transfer, capitalized inventories, and operating results.

Two items on the Changes in Capital of the Fund Statement perhaps require additional explanation. Line item 4.0, "miscellaneous (net," reflects the net increase or decrease due to cash overages and shortages, service contract costs incurred in connection with handling such items as petroleum, oils, and lubricants, and other net increases or decreases not properly classified on other lines. The second item requiring more detailed information is line item 6., "Prior Year Adjustments." Here is reported the amount of adjustments which affect significantly the amount of capital reported at the close of the prior reporting period. The amount reported on this line will consist only of adjustments to transportation costs, repair costs, claims or other expenses, and related balance sheet accounts such as receivables, payables, and cash. It should be noted that adjustments which affect inventory transaction will be considered as current period adjustments on line 4.1 and will not be included on this line.

TABLE 3

(DEPARTMENT) STOCK FUND
CHANGES IN CAPITAL OF THE FUND
(For the Periods Indicated)

	<u>This Period</u>	<u>Year To Date</u>
1. Total capital at beginning of period		
2. Changes in cash capital :		
a. Direct appropriations		
b. Cash allocations to stock fund divisions		
c. Less cash returned to Treasury or transferred to other appropriations		
d. Less cash transfers to unallocated reserve		
e. Total	<hr/>	<hr/>
3. Changes in inventories capitalized :		
a. Inventories of materiel capitalized		
b. Materiel to be received under obligations against procurement appropriations		
c. Less stock withdrawal credits		
d. Less inventories of materiel decapitalized		
e. Total	<hr/>	<hr/>
4. Operating changes in capital:		
a. Revision of standard prices (net)		
b. Purchase cost variance (net)		
c. Surcharge for net losses		
d. Surcharge for transportation costs		
e. Price discounts on reparable materiel		
f. Return of materiel without credit		
g. Receipt of materiel without charge (except f and line 3)		
h. Issues of materiel without reimbursement (except i and line 3)		
i. Materiel transferred to property disposal		
j. Inventory losses and adjustments		
k. Single manager reimbursements for losses		
l. Net recoveries on sales of excess, sur- plus and scrap		
m. Transportation costs		
n. Repair costs		
o. Miscellaneous (net)		
p. Total	<hr/>	<hr/>
5. Total changes in capital during period		
6. Prior year adjustments		
7. Total capital at end of period	<hr/>	<hr/>

The Summary of Cash Sources and Application and Cash Budgets, Table 4, is primarily for management use in review of cash forecasts and in regulating the amount of cash required for allocation to a stock fund or stock fund division and it provides also an analysis of the treasury cash balance. The statement is cast essentially in the form of a statement of sources and application of funds in terms of cash rather than fund capital, with cash transactions shown separately as derived from appropriations and operations. The section on "Operations" is designed from the standpoint of commencing with revenues and expenditures on the accrual basis and converting such data to the cash basis by adjustments for changes in receivables, payables, progress payments, and other items of the same nature.

The columnar data are submitted in accordance with the following requirements:

- | | |
|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. Quarterly reports | Cols. 2 and 3 (current Fiscal Year) Col. 2 only with the 4th quarterly submission. |
| 2. Annual budget estimate | Cols. 1, 4 and 5. |
| 3. Apportionment requests | Cols. 2, 3, 4 and 5. |
| 4. Reapportionment requests | Cols. 2, 3, and 4 when the revised cash requirements (col. 3) will cause a change of 10% in line 8f (cash collections) or 9j (cash expenditures) from the amounts reported on the previous quarterly submission. ²⁸ |

²⁸Ibid., p. 8.

TABLE 4

(DEPARTMENT) STOCK FUND
SUMMARY OF CASH SOURCES AND APPLICATION
AND CASH BUDGETS FOR PERIODS INDICATED
(In thousands of dollars)

	Current Fiscal Year (19CY)				Estimate Budget Year (19BY)
	Actual Past Year (19PY)	Actual To Date	Approved Current Operating Budget	Proposed Revised Operating Budget	
	1	2	3	4	5
<u>Appropriations</u>					
Cash provided by:					
Direct appropriations					
Cash allocations to stock fund divisions					
Total cash provided					
Cash applied to:					
Cash returned to Treasury or transferred to other appropriations					
Cash transfers to unallocated reserve					
Total cash applied					
Cash provided less cash applied					
<u>Operations</u>					
Cash provided by revenues:					
a. Reimbursable issues (net)					
b. Proceeds from sales of excess, surplus and salvage					
c. Miscellaneous					
d. Total revenues accrued					
e. Accounts receivable decrease (+) or increase (-)					
f. Total cash collections					
Cash applied to expenditures:					
a. Materiel procured					
b. Transportation					
c. Repairs					
d. Miscellaneous					
e. Total accrued expenditures					
f. Accounts payable decrease (+) or increase (-)					
g. Other liabilities decrease (+) or increase (-)					
h. Progress payments increase (+) or decrease (-)					
i. Undistributed collections/disbursements - net					
j. Total cash expenditures					
Cash provided less cash applied					
1. Net change - increase (+) or decrease (-)					
2. Available Treasury balance at beginning of period					
3. Available Treasury balance at end of period					

The similarity of the Summary of Cash Sources and Application and Cash Budgets to its commercial or civilian counterpart, the Statement of Sources and Application of Funds, should be readily apparent. No further explanation of the line items is deemed necessary.

The Inventory Status and Transaction Statement, Table 5, is prepared on an annual basis to show the changes in inventory by major material category for the reporting period ending June 30. Fiscal year totals are reported for each line. This statement provides an analysis of transactions in accordance with stratification inventory in accordance with regulations otherwise prescribed. It is not required that separate accounts to record inventory transactions by stratification be established, as such transactions are estimated upon a statistical basis. However, most of the transactions, excluding price adjustments, are of such a nature that they are readily identified to the broad type of inventory stratification.

It is essential that summary information be available in order to determine procurement requirements and obligational and commitment authority for each major material category. The Operating Budget Statement Major Material Category, Table 6, provides this summary information. The purpose of this budget is to relate the estimated material availability (line 16) to the material requirements (line 3) to derive the amount of material required to be actually received from procurement into the system (line 17). This amount is then reduced by material on order at the beginning of the period and increased by the estimated amount of material required to be on order at the end of the period in order to derive the total obligations for

TABLE 5

(DEPARTMENT) STOCK FUND
INVENTORY STATUS AND TRANSACTION STATEMENT
MAJOR MATERIAL CATEGORY
(Date)

Total	Peace-time Operating Stocks	Mobilization Reserve Stocks	Long Supply Stocks		In-Transit Stocks		Stocks with Contractors	Stocks Temporarily In Use
			Authorized Retention Stocks	Other Stocks	From Procurement	Between Storage Locations		
1	2	3	4	5	6	7	8	9

1. Total inventories beginning of period
- Changes during period:
2. Inventories of material capitalized (at standard prices)
3. Receipts of material under obligations against procurement appropriations (at cost)
4. Receipts from procurement (at cost)
5. Revision of standard prices
6. Surcharge for transportation costs
7. Surcharge for net losses
8. Purchase cost variances (net)
9. Price discounts on repairable material
10. Price gain/loss on assembly/disassembly
11. Return of material with credit
12. Return of material without credit
13. Receipts of material without charge -
 - a. Logistic transfers
 - b. Non-reimbursable transfers -
 - (1) Intra-service
 - (2) Inter-service
14. Issues of material without reimbursement -
 - a. Logistic transfers
 - b. Non-reimbursable transfers -
 - (1) Intra-service
 - (2) Inter-service
 - (3) MAP
15. Reimbursable issues (Gross)
16. Standard price reductions on sales
17. Issues against stock withdrawal credits
18. Inventories of material decapitalized
19. Material transferred to property disposal
20. Material written off due to shrinkage, fire, theft and other stock losses
21. Inventory adjustments (net)
22. Material transfers between stocks
23. Total changes for period
24. Total inventories end of period

procurement requirements (line 19). Other obligations and total commitments outstanding at the end of the period are then added to determine the total obligations and commitments (line 23).

The Reimbursable Issues (Net), Table 7, is submitted each quarterly period for each stock fund to show the amount of net reimbursable issues (sales). The statement reflects the actual and the forecasted sales, as appropriate, by the fund or appropriation from which they are financed within the reporting military department.

Reimbursable issues (sales) to other agencies of the Department of Defense and other government agencies are reported by specific agency name.

Reimbursable issues are stated net of credits for material returns and anticipated stock losses. Sales of excess material and other miscellaneous revenues are not shown on this statement.

The Status of Budget Authority, Table 8, reflects the status of the obligation and commitment authority for the departmental stock fund based on the operating budgets for each material category. This statement indicates on separate lines the budget authority and limitation for each material category. The statement provides data on obligations incurred for the period, amounts reserved for commitments and available balances.

It should be readily apparent that the attainment of businesslike and efficient operations is ever fostered by the levels of review that are involved in this evaluation of operations. By these annual, quarterly, and monthly reports authorities are receiving information which assists in making

TABLE 7**(DEPARTMENT) STOCK FUND
REIMBURSABLE ISSUES (NET)****(Date)****(In thousands of dollars)**

	Current Fiscal Year (19CY)				Estimate Budget Year (19BY)
	Actual Past Year (19PY)	Actual To Date	Approved Current Operating Budget	Proposed Revised Operating Budget	
	1	2	3	4	5
CUSTOMER					
<u>This department:</u>					
Fund or appropriation					
<u>Other agencies of Department of Defense:</u>					
<u>Other Government agencies:</u>					
<u>All Other</u>					
Total					

TABLE 8

(DEPARTMENT) STOCK FUND
STATUS OF BUDGET AUTHORITY

(Date)

Balances						
Category	Budget Authority	Allotments	Obligations Incurred	Available for Allotment	Unobligated Allotments	
					Total	Available for Commitment
1	2	3	4	5	6	7
						Reserved for Commitments Outstanding 8

timely and effective decisions which are in the best interest of the Marine Corps, the government and the nation.

The internal reporting procedures of the fund are utilized to generate the inventory and financial data necessary for management in compiling reports, formulation and execution of the budget, control of apportioned funds and control of inventories.

Reports reflecting stores balances, and supply classification are prepared monthly by each of the activities in the Marine Corps Stores System for each category of materiel. The reporting activities report the dollar value of the opening and closing inventories and the value of all transactions affecting increases and decreases to the inventory. The consolidated reports prepared at Headquarters Marine Corps are utilized in making stock control, budgetary, and management decisions.

A stock status report is made on an item basis for each of the major supply activities for all items of supply on which stock status information is required. Stock status reporting is "the process of reporting selected items of supply in specified formats with all information necessary for inventory management."²⁹

Stock status reports are submitted to stock managers for such management reviews as determining requirements, procurement objectives, and repositioning of assets. Reportable information consists of quantities

²⁹Department of the Navy, Headquarters United States Marine Corps, Marine Corps Order 4440.14, "Simplified Inventory Control Program, Promulgation of," (Washington: Department of the Navy, December 9, 1960), pp. 1-16.

available for issue, expected receipts, outstanding obligations, replenishable demands, stock in transit, and nonreplenishable issues. Stock status is reported on an exception type reporting basis whereby only those items having transaction activity are reported. The reports are summarized monthly at Headquarters Marine Corps into a consolidated Stock Status Report. This consolidated report is then utilized to insure a proper balance for procurement decisions, and as a base for the stratification program.

Stratification is the program by means of which assets of the fund are identified by intended use. Stratification is closely related to requirements determination and the budget process and is derived from item computations. Stratification is a reflection of an inventory manager's actual operations in the computation of requirements and application of assets for procurement, redistribution, repair, mobilization retention, apportionment, and budget purposes.

Stratification provides fundamental inventory control data upon which many supply operations can be based. It provides a basis for preparing apportionment and budget requests by indicating deficiencies in assets which need to be funded in order to meet requirements. Through stratification, quantities of items in long supply which should be retained or disposed of as excess are indicated.³⁰

The stratification process requires that stock levels of each item of each material category be individually analyzed with respect to readiness

³⁰Department of the Navy, Office of Naval Material, NAVEXOS P-1500, Navy Policy and Standards for Inventory Management, (Washington: Department of the Navy, February, 1960), pp. 6-8.

position.

Stratification is accomplished annually by each inventory manager on all items under his control. This involves the computation of peacetime and mobilization requirements, as appropriate, and the allocation of assets against the requirements. As a minimum, each inventory manager is required to stratify his inventory on a quantitative and monetary basis with respect to on-hand stock and expected receipts for the following strata:

1. Peacetime Force Material Assets: That portion of the total material assets which is designated to meet the peacetime force material requirement.
2. Mobilization Reserve Stocks: That portion of the total materiel which is designated to meet the mobilization reserve materiel objective.
3. Economic Retention Stocks: That portion of the quantity in long supply which it has been determined will be retained for future issue or consumption as being more economical than future replenishment by procurements.
4. Contingency Retention Stock: That portion of the quantity in long supply of a military-type item for which no authorized requirements exist, and which normally would be considered as excess stock, but which it has been determined will be retained for possible military or defense contingencies.
5. Excess Stock: That portion of the total assets of an item which exceeds the retention limit for the item and which is to be disposed of as excess property.³¹

³¹Ibid., pp. 6-9.

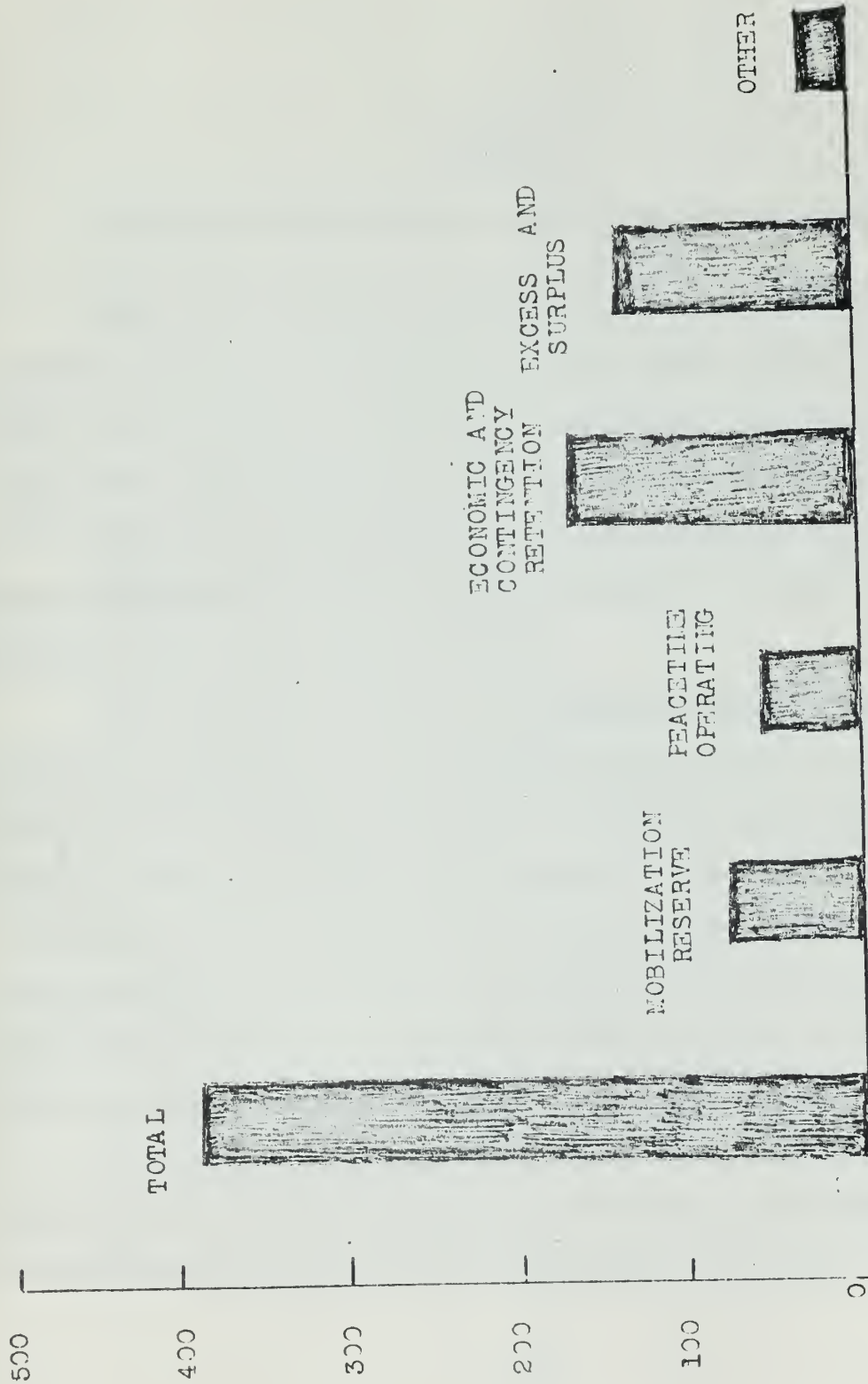
These subdivisions are designed to show the dollar value of inventory available to meet the requirements for peacetime and to support applicable strategic mobilization plans. The economic reserve, contingency reserve, and excess stock are also measured for determination of the amount of stocks available for sale without repurchase and for redistribution or disposal.

Table 9 reflects the Marine Corps Stock Fund Inventories by Stratification.

Thus we have reviewed the history of the fund, its organization, operation, and the reports and controls which are so essential to efficient operation. In Chapter VI our attention will be directed to capital investment and a discussion of the stock fund budgetary process.

MARINE CORPS
STOCK FUND INVENTORIES—STRATIFICATION
AS OF 30 JUNE 1960

Millions
of Dollars



SOURCE: 1960 Report of Working Capital Funds of the Department of Defense, Sec. 405, Public Law 816

CHAPTER VI

THE MARINE CORPS STOCK FUND BUDGETARY PROCESS AND CONTROLS

Before spending money to acquire specific items serious study must be given to the amount which can be profitably spent, just how it should be spent, and what results can reasonably be expected. In order, therefore, to meet these responsibilities, the Marine Corps and particularly the managers of the Marine Corps Stock Fund must constantly improve the managerial tools for the direction and control of procurement funds. One such tool used in the stock fund is the commercial budget.

In a stock fund operation the fundamental purpose of the commercial budget is to ascertain the most profitable course to follow and to develop a balanced and coordinated program which will hold the fund to that course. Budgeting provides a valuable tool of control, for without such planning inventories would very likely be out of proportion and invested funds wasted. When funds are received they must be obligated in a manner which conforms to the policies and objectives of higher authority; they must be employed so that the greatest return is received for each dollar invested.

Department of Defense Directive 7420.1 states "each military department shall prepare and maintain a budget program forecast (hereinafter referred to as a commercial-type budget) for the departmental Stock Fund." This term

"commercial-type" budget has been misleading to the uninformed and has led many people to think of the stock fund budget as separate and distinct from the traditional government budget. The implication is that the stock fund budget is developed in a manner similar to a commercial or business budget and without regard to regulations pertaining to other public funds. But as will be readily apparent from the paragraphs to follow, such is not the case.

A business or commercial-type budget is normally considered to be the financial plan, objectives, or goals of a business for certain forecasted or expected economic conditions. The basis for a commercial-type budget is usually a forecast or estimate of sales.

The traditional governmental budget can more accurately be defined as the justification and defense at various review levels of the estimated requirements of a given program or objective. Its foundation is the program to be accomplished or the service to be performed. In the operation of the stock fund both the sales forecast used by the commercial or business budget, and the program to be accomplished or the service to be performed, are in fact considered in preparing the stock fund budget.

In theory, budgeting as an estimating process which culminates in an appropriation request before Congress is required only when it is desired to augment the capital investment of the fund. Actual practice, however, requires that a "commercial-type" budget be submitted in the annual departmental budgets for each year:

The commercial-type budget for the Stock Fund shall be submitted in the annual departmental budget for each year as prescribed in Budget Circular No. A-11, "Instructions for the Preparation and Submission of Annual Budget Estimates." As part of the prescribed statement of program and performance, there shall be included a description of the proposed major financial policies relating to the Stock Fund and each Division or Material category therein, with an explanation of any significant changes from existing policies. Requests for increase in Stock Fund capital shall be submitted with the budget accompanied by an explanation and justification.³²

Because of the authority of reviewing echelons to withhold funds, restrict obligations, and at times transfer funds back to the Treasury, this budget is in fact a justification and defense of the programs and objectives of the stock fund.

Since it would be almost impossible to distinguish between the portions of the stock fund budget which are based on sales projections and those portions which are based on programs to be accomplished or services to be performed, it has become accepted practice as indicated previously to refer to stock fund budgets as "commercial-type" budget. Although in theory the fundamental ideas are different, the information furnished is utilized to achieve the same ends--control and the most efficient use of resources. Facts and figures obtained as a result of the sales forecast and other projections of the commercial (stock fund) budget are used to justify obligations and expenditures requested in the traditional budget. Obligation and expenditure authority granted as a result of the governmental type of budget are used to achieve the forecasts of the commercial budget.

³²Department of Defense Directive 7420.6, p. 28.

The Secretary of the Navy, in conjunction with the Commandant, determines what the Marine Corps is expected to do in the budgetary period. These determinations constitute the program objectives of the Marine Corps and are a part of the overall program of the Department of the Navy. Based upon the program objectives, the Commandant issues a guidance letter covering policy, missions, and level of operation for the budget period. The level of operation as stated in the Commandant's letter may be expressed in specific terms of personnel ceilings, work load, and operation schedules. The guidance letter is the basis upon which subordinate commands plan operations and submit budget estimates.

As with the conventional type governmental budget the preparation of the stock fund budget begins as soon as the guidance letter is received. The managers of the Supply Inventory Control Points compile and prepare the necessary budget information from the recommendation of the Stock Fund Board, reports submitted by field activities, and available historical and statistical data. The Board converts the tactical, technical, and operational policies of the guidance letter into material requirement terms.

Since the stock fund exists to do service for or sell its stock to field activities, the appropriation requests or budget estimates of these organizations are analyzed to determine the volume of business that can be expected from these areas.

Once the information is amassed it is assembled in the prescribed budgetary form, "Operating Budget Statement," as required by Department of

Defense regulations described herein in the preceding chapter.³³

At this point in time the collection, interpretation, and conversion portion of the budget preparation is completed. It now remains for each echelon to review the estimates, with each ascending command in the budget "chain of command" attempting to justify the figure submitted.

Some of the most vigorous reviews of the Stock Fund Budget requests are performed "within the family," so to speak. That is to say, that the different elements in the Marine Corps Stores System are asked to present their budgetary requirements and justification to Headquarters. This is an informal presentation, however, and can be of aid in spotting weak presentations and in strengthening in general the subsequent presentations before less friendly audiences.

The stock fund budget as a subdivision of the Marine Corps budget follows the same general path required by other appropriation requests for the Department of Defense. The budget call comes from the President through the chain of command to the Commandant, where it is converted into estimates.

The review by the Commandant of the Marine Corps is accomplished in the form of a presentation by the staff members responsible for the budget estimate of a particular program. The Commandant's review serves to acquaint him with the details of the budget, acquaint the individual staff agencies with the overall budget, and is used as a rehearsal for those individuals responsible for presenting and justifying the budget at the next level of

³³Supra, p. 38.

review.

Following a review by the Commandant of the Marine Corps and the Secretary of the Navy, the budget is then submitted to the Office of the Secretary of Defense. At this point the request becomes merely a part of the total military requirements and the submission of the request to the Bureau of the Budget is at the Secretary of Defense level.

At this point the subsequent submission of the budget to the Congress, the various House and Senate hearings and bills, passage and return as a public law follow the very same procedures as those of any regular appropriation request.

It should be noted that at each echelon of review in which the estimates are modified the budget is returned to the management control points in order that new estimates can be prepared in accordance with the recommended mark up³⁴ before resubmission is attempted. The effect of major decisions can be calculated and objectives and programs within the major material categories revised accordingly.

The signing of the appropriation act by the President does not make the funds available for use. Statutory authority alone is not enough; administrative authority must also be obtained. This applies even to a revolving fund which in theory is self-perpetuating.

In order to make the funds available an apportionment must first be secured. The Commandant secures apportionment by making a request in the

³⁴A change or modification at the secretarial level, Bureau of the Budget, or Congress of the original estimates submitted.

prescribed form to the Bureau of the Budget. Apportionments requested are based on the approved plans and programs upon which the appropriation was granted, including approved changes thereto. Apportionments are requested for the entire fiscal year in such amounts as will support the requirements of each quarter. Requests may be submitted at any time for changes in the apportionment considered necessary to meet new requirements.

These requests for apportionment must be approved on their way to the Bureau of the Budget by the Secretary of the Navy and the Navy Comptroller. Any or all three of these offices may hold hearings at which the Marine Corps must justify its apportionment request.

The administrative details so necessary to make the funds appropriated by the Congress and apportioned by the Bureau of the Budget, available to the Marine Corps have not been completed to this point in time. The Commandant must yet submit a request and receive approval from the Comptroller of the Navy for an allocation of the approved apportionment. This request is based on the justifications submitted for apportionment and becomes the plan for financial control and management of the budget.

Budget execution is the carrying out of the approved budget or plan. It consists of (1) the distribution of authority to obligate and expend funds; and (2) a continual analysis and evaluation of the budget plan.

Obligational authority extends from the Commandant through the Quartermaster General to the Supply Inventory Control points and to the field activities. This authority follows the same lines as the Stores Supply System. Funds at each level are obligated in accordance with individual budgets which have been constructed and modified if necessary to agree with

the overall stock fund budget. Overall control is maintained at the headquarters level through the use of the financial reports illustrated in Chapter V. In accordance with Department of Defense directives "Stock Funds shall be included in the monthly reports on the status of appropriation accounts required by the Bureau of the Budget in accordance with Budget-Treasury Regulation No. 1." Flexibility is maintained by continuous evaluation of the operational needs of the Marine Corps by the Stock Fund Board. Changes in tactical requirements which affect material readiness are analyzed and reflected in modifications to the original budgetary plan.

All that remains to be accomplished at this point is an objective evaluation of the fund. This will be the subject of Chapter VII.

CHAPTER VII

SUMMARY--EVALUATION AND CONCLUSIONS

With the passage of Title IV of the National Security Act, it was the intent of Congress that certain benefits in the fields of financial management, control, budgeting, and accounting then being employed in commercial enterprises would accrue to the military services with the resultant effect that more efficient operation in the military in these areas would be realized in lower cost of operation.

As was indicated in Chapter II, the adoption of the principle of the stock fund was not a simple task in the Marine Corps since it really necessitated a complete evaluation of financial management in the corps. This evaluation of financial management resulted in the birth of a new philosophy in the area of fiscal matters. Recent directives of Headquarters, Marine Corps are proof of the importance placed on financial management by the present day members of the Corps.

The acceptance and recognition of the relative importance of sound financial management principles in the Marine Corps is largely reflected in the success of the stock fund. Admittedly the fund has achieved great success and continues to achieve its basic purpose; but in order not to infer that the

fund has been entirely successful it might be desirable to reflect upon the original purpose or objective of the stock fund principle.

In the following paragraph, a general review is made of the progress toward the fundamental objectives of revolving fund operations in military supply functions. In order better to critique or analyze the objectives of the stock fund these objectives, as stated, have been extracted from Department of Defense Directive 7420.1.

a. Funds will be provided automatically for replenishment of stock through reimbursement to the Stock Fund for material consumed or sold.

Fundamentally, this objective will be impossible of achievement as long as stock fund operations are subject to the apportionment process. The funds apportioned have been greatly under the amount requested.

The Advisory Committee on Fiscal Organization and Procedures (Cooper Committee)³⁵ made a specific recommendation regarding the application of the apportionment process to military stock funds. Their negative recommendation was not concurred in by the Bureau of the Budget. In rebuttal, the Bureau of the Budget has stated that apportionment action will be necessary until such time as military stock levels are deemed acceptable. Since the apportionment process continues in effect it can only be surmized that this has not yet been attained.

Until the review system presently in use for apportionment and allocation is eliminated or revised, budgeting solely as a means to justify and

³⁵Advisory Committee on Fiscal Organization and Procedures. Financial Management in the Department of Defense (Washington: Government Printing Office, 1954).

defend the policies of the fund management will continue to be a year-around task.

b. There will be no deterrent and no incentive to place obligations other than when required because of the availability or non-availability of appropriations.

The total funds apportioned by the Bureau of the Budget have never been fully committed. This has been the result of close financial analysis of a continuing nature. Under revolving fund operations, there is a distinct relationship between material purchased and sold which does not exist in the case of procurement from annual appropriations and subsequent issues without charge. As a rule, obligations are incurred subsequent to analysis of sales trend or income.

c. Obligations for purchase of Stock Fund items may be timed (without speculation) to take advantage of favorable prices, whereas such timing would be impossible if the items were financed under limitations of annual appropriations.

Although this objective has been difficult of achievement to the fullest due to the apportionment process, its import has increased with the idea of stratification discussed in Chapter V. It is now recognized that economies in procurement must be directly related to the impact such action has on the distribution system level of supply. This facet of logistical planning has reflected considerable application in the area of maintenance spare parts.

d. To the extent otherwise deemed appropriate, single-service supply, or cross-servicing between the Department, is facilitated in the case of those supply items financed under Stock Funds, because such stocks may be procured from, and "pooled" under, one fund by the Department responsible for storage, with the avoidance of separate accounting for procurement and stocks for and by several owners.

The basic principle of cross-servicing and single-service procurement has been used widely within such material categories as subsistence, ordnance, motor transport and electronics. Since this is an area which could eventually be subjected to major changes under the Defense Supply Agency little can be added to what has already been noted.

e. The financing and accounting for materials, supplies and equipment procured and held for the reserve forces (civilian components) or other users of common items within the military department are simplified similarly.

This objective has little application to the Marine Corps Stock Fund. Its application is restricted to the reserve forces of the Marine Corps and primarily concerns individual and organizational clothing, and general property. These sales have averaged less than 4% annually.

f. The financing through a Stock Fund of mobilization reserve stocks of consumable materials and supplies results in their protection for the use for which they are intended, because they cannot be diverted to meet current needs without provisions for replacement through reimbursement from current appropriations.

The ability of the fund to finance known deficiencies in mobilization reserves is minimized by the dollar requirement needed to raise peacetime operating stock levels. Consequently, there have been years in the funds existence when no apportionment of funds has been for the specific procurement of mobilization reserve stocks.

g. The institution of the requirement for financial control over the cost of consumption of material carried in the Stock Funds, as a part of the normal processes of budgeting and control over the expenditure of appropriated funds, is a force for greater cost consciousness, economy and efficiency in the use of such material than exists when financial control over material is confined to procurement requirements.

The Marine Corps finds itself in the very unique position of being able to align its sales expectancy directly with the funding available to its large volume "customer." This has advantages as well as disadvantages. It has been a factor in enabling the Stores Accounts Management Section to make more realistic forecast but also injects a degree of inelasticity into the same forecasts. This occurs when an annual appropriation sustains a "cut" and those responsible deem that the decreased availability affects precisely comparable purchases from the stock fund. This has resulted in many numerous delays in concluding formulation.

h. The use of a Stock Fund can be made a force for close control over stocks of the respective items of material carried in the Fund through the control over financial resources of the Fund in relation to supply requirements. This use of the Fund will provide an automatic incentive for limitation of inventory levels, better balanced inventories, and limitations of procurement requirements of peacetime operating stocks.

As has been cited heretofore, the investment level for the Marine Corps Stock Fund is fundamentally controlled through the apportionment process and several related budget hearings. Stratification of inventory levels has proved highly beneficial in attempting to accomplish this above objective. But until a revised philosophy is forthcoming concerning the apportionment concept for stock funds complete achievement will never be realized.

i. One result of the Stock Fund device is that budget estimates and reported costs of materials, supplies, and equipment issued from the Stock Fund are stated upon the basis of consumption rather than purchase. This is a better measure of performance costs of these activities which use such materials and supplies. By this device, the accrual basis of accounting for appropriations is provided in a relatively simple manner. This will aid in financial control of the costs of operating all activities, including budgetary reviews of all programs.

Continuous improvement has been reflected in Marine Corps Stock Fund accounting and reporting techniques. The stock fund device has had a very favorable overall effect on supply operations within the Marine Corps.

Detailed reviews at each level confine and restrict the broad management control of the Quartermaster General. Management has been weakened due to the time-consuming and detailed reviews incident to the apportionment process. These reviews defer firm planning of investment levels and create an air of skepticism in the mind of the field commander who is acutely aware, not only of the economy brought about through use of the stock fund device, but of the need to meet supply demands.

No attempt will be made to pass judgment on the degree to which the stock fund has achieved the objectives anticipated by the Department of Defense. The preceding paragraphs summarize the results obtained. An evaluation of these results will be the prerogative of the individual reader. But, before passing judgment, one should be cautious not to condemn or praise the stock fund principle based solely on the degree of success to which these original objectives have been realized, but with full recognition of the "fringe benefits" which have accrued as a result of implementation of the stock fund concept.

One of the objectives listed at the outset of this paper was to attempt to "crystal-ball;" what, how, or if at all, The Defense Supply Agency will possibly modify, augment or replace the departmental stock funds.

In its infancy it would appear that the Defense Supply Agency is a further attempt to refine the idea of single-manager, to provide additional savings through the purchase of "bulk-lots" of common use items, and to accelerate the effort of standardizing items of equipment and clothing in order to realize more fully the objective of economy through single-managers and bulk purchases.

So, at this point in time it would appear that the Defense Supply Agency will have little effect upon the operation of stock funds other than to provide an additional source from which assets will be purchased.

In concluding it might be well to dwell for a moment on probably the most significant accomplishment of the stock fund.

The establishment of a sound and standardized system of accounts and accounting is an essential tool to the successful operation of a stock fund. Just as a commercial business must know where it is going, the successful stock fund administrator must be assured of investing his available funds wisely to meet assigned objectives and must know these funds are not being dissipated through poor management policies. Good accounting procedures provide the raw material for management decisions. But, prior to the implementation of the fund principle no such system was in fact in effect in the Marine Corps.

In essence then, the greatest single achievement which resulted from the adoption of the stock fund is the necessity for a reevaluation of the entire financial management philosophy in the Marine Corps, and the attendant improvements which have resulted from this evaluation.

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CHAPTER I

SECTION I

THE first object of this study is to determine the nature and extent of the problem.

The second object is to identify the causes of the problem.

The third object is to determine the effects of the problem.

The fourth object is to identify the factors which influence the problem.

The fifth object is to determine the methods of solving the problem.

The sixth object is to determine the results of the solution.

The seventh object is to determine the conclusions which can be drawn from the study.

The eighth object is to determine the recommendations which can be made.

The ninth object is to determine the limitations of the study.

The tenth object is to determine the scope of the study.

The eleventh object is to determine the significance of the study.

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